

Virginia Enterprise Zones

Frequently Asked Questions

**The Virginia Enterprise Zone Program
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INTRODUCTION

The Virginia Enterprise Zone Program supports business expansion and development in specially targeted areas throughout the state. It was created in 1982 by the Enterprise Zone Act to stimulate local economic growth and neighborhood revitalization.

An enterprise zone is an economically distressed area of a county, city or town designated by the Governor to offer a package of state and local incentives for a period of 20 years. The incentives are designed to encourage business start-up, recruitment and expansion through state and local tax relief, local regulatory flexibility and infrastructure development.

Businesses, large and small, new and expanding, manufacturing and retail may all participate in the program provided that their business is located within an enterprise zone and certain qualification requirements are met. Each enterprise zone is in effect for a period of 20 years from the date of its designation and a business firm may choose to participate in the program at any time during the existence of a zone.

There are more than 50 Enterprise Zones across the state in a variety of settings, including the heart of urban areas, small downtowns and office and industrial parks. To determine if your business is located within an enterprise zone, contact the appropriate local zone office listed in Appendix A.

ABOUT THIS PUBLICATION

This publication provides answers to some frequently asked questions about the Enterprise Zone Program. Before qualifying for a state Enterprise Zone incentive, the instruction manuals and Program Regulations must be reviewed. A copy of these publications may be downloaded from the DHCD web site (www.dhcd.state.va.us).

If you have any questions about qualifying for state incentives or other aspects of the program, or need forms please contact:

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FREQUENTLY ASKED QUESTIONS ABOUT THE ENTERPRISE ZONE PROGRAM

What is an Enterprise Zone?

The General Assembly established Virginia's enterprise zone program in 1982 through passage of the Virginia Enterprise Zone Act (§59.1-270 through §59.1-284 of the Code of Virginia). An enterprise zone is a distinct geographical area of a county, city or town as designated by the Governor. The state and local government enter into a twenty-year partnership designed to offer a package of incentives to encourage business expansion and recruitment.

Who administers the Enterprise Zone Program?

The Virginia Department of Housing and Community Development (DHCD), Office of Community Revitalization and Development administers the program guided by the Virginia Enterprise Zone Program Regulations. The regulations establish specific criteria and procedures for Enterprise Zone administration, designation and amendment, along with defining the qualification criteria for participating businesses. Each designated enterprise zone has a Local Zone Administrator who is responsible for overseeing the local program and assisting businesses in obtaining state and local incentives.

Where and when have Enterprise Zones been designated?

Enterprise zones are in effect for a period of twenty years from the date of zone designation. Fifty-seven (57) zones are currently designated. Enterprise zones were designated in 1984 in the cities of Danville, Lynchburg, Newport News, Norfolk and Portsmouth (a joint zone), Roanoke and the town of Saltville. Zones were designated in 1985 in the cities of Chesapeake, Hampton, Hopewell, and Petersburg; the counties of Carroll and Wythe (a joint zone) and the town of South Hill. Zones were designated in 1988 in the cities of Galax and Waynesboro and in Halifax County/South Boston (a joint zone). Zones were designated in 1990 in Prince George County and the cities of Staunton and Suffolk. The City of Richmond's first zone was designated in 1993 and zones were designated in the City of Alexandria, the towns of Front Royal, Rocky Mount, and Narrows, as well as the counties of Chesterfield and Pulaski in 1994. In 1995, three localities received multiple zone designations. They are Carroll County/Hillsville (a joint zone), the cities of Newport News and Richmond. Accomack and Northampton counties received a joint zone designation as a result of a federal Enterprise Community designation. In 1996, portions of the following localities were designated: Brunswick County/Lawrenceville (a joint zone), Chesterfield County, Greenville County, Hampton, Henry County/ Martinsville (a joint zone), James City County, Lynchburg, Mecklenburg County/South Hill/LaCrosse (a joint zone), Town of Orange, Pulaski County, Town of Pulaski, Roanoke, Scott County, Tazewell County and Warren County. In 1997, a second enterprise zone was designated in the City of Lynchburg, and in 1998, a joint enterprise zone was designated in Dinwiddie County/ City of Petersburg. In 2000, zones were designated in the Counties of Charlotte, Lunenburg and Prince Edward (a joint zone), Dickenson County/ Haysi/ Clintwood (a joint

zone), Smyth and Washington Counties (a joint zone), Lancaster, Northumberland, Richmond, and Westmoreland Counties (a joint zone), and Wise County. In 2001, zones were designated in Alleghany County/Covington/Clifton Forge (a joint zone), Henry County and Martinsville (a joint zone), Lunenburg County/Kenbridge/Victoria (a joint zone), Mecklenburg County and Clarksville (a joint zone), and Pittsylvania County and Danville (a joint zone). The joint zone of Patrick County/Town of Stuart was designated in 2002.

How do I determine if my business is located in an Enterprise Zone?

Contact the appropriate local zone administrator to learn if your business is located in one of Virginia's 57 Enterprise Zones. A map of the Enterprise Zones and the local zone administrators' contact information is available on the DHCD web site at www.dhcd.state.va.us. You may request this information from DHCD via email at ezone@dhcd.state.va.us or via telephone at (804) 371-7030.

What state incentives are available to businesses in an Enterprise Zone?

Four state incentives are available to help encourage business expansion and new business development within an enterprise zone:

The ten-year general income tax credit is applied against a business's state tax liability in an amount up to 80 percent in year one and 60 percent in years two through ten. For businesses investing at least \$15 million and creating 50 jobs, the amount of credit is subject to negotiation between the business and DHCD. Businesses qualifying after July 1, 1997 must have 25 percent of new jobs filled by low-income individuals or zone residents. Businesses that qualified prior to July 1, 1997 must continue to have 40 percent of their new jobs filled by low-income individuals or zone residents.

The real property improvement tax credit is equal to an amount of up to 30 percent of qualified non-residential zone improvements with a maximum amount not to exceed \$125,000 within a five-year period. Qualified improvements in new construction projects must cost at least \$250,000. Qualified improvements in rehabilitation or expansion projects must cost at least \$50,000 or the value of the building's assessment before the improvement, whichever is greater. The applicant must own and conduct business in the building or be a tenant making leasehold improvements to the building. The credit is refundable. If the business's state tax liability is less than the credit allocated the remaining balance would be refunded.

The investment tax credit applies against a business's state tax liability for businesses investing at least \$100 million and creating 200 jobs. The percentage amount of the credit is negotiable and could be worth up to five percent of the investment. Business firms qualifying for the investment tax credit have the option of taking this incentive *in lieu* of the real property improvement tax credit.

Job grants for new permanent full-time positions created by business start-ups and expansions by existing firms are available in amounts equal to \$1,000 per zone

resident and \$500 for positions filled by a non-zone resident. The maximum grant to any one firm per year is \$100,000 for three consecutive calendar years commencing with the first year. Businesses may qualify for more than one three-year job grant period provided the business firm creates additional permanent full-time positions.

What forms need to be completed to receive state tax credits?

Applications must be made on forms prescribed by DHCD and sent by certified mail with a return receipt requested and postmarked no later than the date specified for submission by DHCD. If forms are submitted by hand delivery, they must arrive at DHCD prior to 5 pm on the date specified for submission. (FedEx and UPS type deliveries are considered hand delivery and must arrive at DHCD prior to 5 pm on the date specified for submission.) If the date specified for submission falls on a date that DHCD is not open, the submission date becomes the next business day.

The required forms can be obtained via the DHCD web site at www.dhcd.state.va.us, by email at ezone@dhcd.state.va.us, or by calling DHCD at (804) 371-7030. All state enterprise zone qualification forms must be completed and signed by an independent certified public accountant licensed by the Commonwealth of Virginia.

FORM EZ-6E - Requesting General Tax Credits for Existing Firms

FORM EZ-6N - Requesting General Tax Credits for New Firms

Any business firm which qualifies for general tax credits on or after January 1st and has a taxable year ending on or before December 31st, must submit an application requesting a general tax credit to DHCD no later than May 1st of the calendar year following the end of the tax year.

FORM EZ-6R - Requesting Real Property Improvement Tax Credits

FORM EZ-6I - Requesting Investment Tax Credits

Any business firm which qualifies for real property improvement or investment tax credits on or after January 1st and has a taxable year ending on or before December 31st, must submit an application requesting the tax credit to DHCD no later than May 1st of the calendar year following the end of the tax year. Real property improvement tax credits can only be requested for the taxable year the improvements were placed in service.

Note: Firms that qualified for enterprise zone incentives prior to 1995, must continue to use the 4-series forms. Contact DHCD for more information.

How are applications requesting tax credits handled?

1. DHCD will review all applications for completeness and notify business firms of any errors no later than June 1st. Business firms must respond to any unresolved issues no later than June 15th.

2. DHCD will notify all applicants by June 30th as to the amount of applicable general tax credit, real property improvement tax credit, or investment tax credit that may be claimed for the taxable year the request was made. A Certificate of Qualification will be mailed to the applicant. DHCD will notify the applicant if it fails to qualify for state tax incentives.
3. DHCD will certify to the Commissioner, Virginia Department of Taxation, or in the case of public service companies to the Director of Public Service Taxation for the State Corporation Commission, the applicability of the tax credits requested by the firm.
4. A business firm, upon receipt from DHCD of its Certificate of Qualification, may file the applicable state tax returns. A qualified applicant must submit its Certificate of Qualification, a Virginia Tax Form 301-Enterprise Zone Credit, and a Schedule CR with its state tax return. The Department of Taxation or the State Corporation Commission will not grant the tax credits unless the firm submits its Certificate of Qualification, a Form 301, and a Schedule CR with its state tax return. Form 301 and Schedule CR are available from the Department of Taxation's web site (www.tax.state.va.us). Questions about these forms should be directed to the Taxpayer Assistance Office of the Department of Taxation. Corporations should call (804) 367-8031, and individuals should call (804) 367-8037.
5. Qualified firms that are partnerships, Subchapter S Corporations, or Limited Liability Corporations must send an electronic version of partner or shareholder details to the Department of Taxation with their tax credit qualification. This should be submitted as soon as possible after receiving qualification information from DHCD in July. The Department of Taxation will not be able to process individual returns that claim a tax credit until the necessary tax credit information has been received from the original parent company.

Are there any annual limitations on the amount of tax credits a business might receive?

Applicants may only apply for credits for which they are otherwise eligible to claim during a taxable year. However, all tax credits are subject to an annual fiscal limitation. The general tax credit and the real property tax credit have a combined annual fiscal limitation of \$16 million based on the Commonwealth's fiscal year ending June 30th. The investment tax credit has an annual fiscal limitation of \$3 million based on the Commonwealth's fiscal year ending June 30th.

If requests for tax credits from the \$16 million pool are exceeded, and requests from the \$3 million pool are less than \$3 million, then remaining funds from the \$3 million pool can be used, and vice versa. However, in the event that taxpayer requests exceed the Commonwealth's annual fiscal limitations and there is no money available in the other pool of money, the taxpayer will be granted a pro rata amount by DHCD. No taxpayer will be treated differently when calculating the pro rata amount. Each taxpayer will receive an equitable share by dividing each taxpayer's request by the total of all taxpayer requests.

and multiplying the product by the fiscal limitation. The result is the actual amount of tax credit allocated to the qualified business.

In the event that a taxpayer receives an amount pro rata for the general tax credit, any unused tax credit may not be applied to future years. Any credit not useable because of pro-rata for the taxable year the credit was allowed cannot be carried back to a preceding taxable year and is not refundable. In the event that a taxpayer receives an amount pro rata for the real property improvements tax credit, any unused tax credit may not be applied to future years. In addition, any credit not useable due to pro-rata cannot be carried back to a preceding taxable year and cannot be refunded.

In the event that a taxpayer receives a pro rata amount for the investment tax credit, any unused tax credit will be carried over until the full amount of the credit has been utilized.

What is a firm's procedure for obtaining state job grants?

In order to claim job grants an application must be submitted to the Local Zone Administrator by March 31st of the year following the qualifying grant year. Applications for grants must be made on Form EZ-6J as prescribed by DHCD and may include other documentation as requested by the Local Zone Administrator. The form must be completed and signed by an independent certified public accountant licensed by the Commonwealth.

1. The Local Zone Administrator will review applications and verify the zone residency of any claimed zone residents. The Local Zone Administrator must submit the applications to DHCD by certified mail postmarked by April 30th. If a Local Zone Administrator chooses to hand deliver the applications to DHCD, they must arrive at DHCD prior to 5 pm on April 30th. (FedEx and UPS type deliveries are considered hand delivery and must arrive at DHCD prior to 5 pm on April 30th.)
2. DHCD reviews applications for completeness and notifies business firms of any errors no later than June 1st. Business firms must respond to any unresolved issues no later than June 15th.
3. DHCD will notify all businesses by June 30th of the amount of zone job grants they are eligible to receive for the calendar year the request was made.
4. The Department of the Treasury usually mails job grant checks to qualified businesses during the month of August.

Are there any annual limitations on the amount of job grants a business might receive?

There is a special fund established in the state treasury known as the Enterprise Zone Grant Fund, which is administered by DHCD. Grant funds are subject to annual appropriations by the General Assembly.

If the amount of job grant requests exceed the funding appropriated by the General Assembly, the funds will be prorated, based upon the amount of the grant to which an applicant is eligible and the amount of money available for allocation to each category.

Is a job grant taxable income?

It may be. Consult your tax professional to determine your situation.

How often does a business firm have to submit forms in order to qualify for the state incentives?

A firm must submit the appropriate form(s), either Form EZ-6E, EZ-6N, EZ-6R, EZ-6I or EZ-6J, for each year of the qualification period in which state incentives are requested.

What records does a firm have to maintain in order to qualify for the state incentives?

Business firms considering participation in the Virginia Enterprise Zone Program should keep careful records of the following:

- For general tax credits the firm must keep records of the employees' income status. Determination of income status should be done at the time of hiring, even if the firm does not anticipate immediate participation in the EZ Program. Obtaining this information is relatively easy at the time of hiring by using an employee self-certification form. A sample of the self-certification form is provided in DHCD's Instructions for Requesting State Tax Credits. Obtain this instruction manual from DHCD's web site at www.dhcd.state.va.us, via email at ezone@dhcd.state.va.us, or by calling DHCD at (804) 371-7030.
- For businesses whose qualification for a general tax credit or job grants includes zone residents, annual verification and a record of their residency will need to be retained along with the firm's payroll records used in calculating the firm's base year employment.
- In the case of real property improvement and investment tax credits, records of the actual amounts of eligible real property improvements and eligible investments along with a record of the assessed value of the real property prior to improvements will need to be retained.

How will receipt of state tax credits affect my firm's federal and state tax liability?

Because state EZ tax credits reduce a firm's Virginia taxes, they also decrease the federal deduction for state taxes paid and may increase a firm's federal tax liability. Real property improvement tax credit refunds given above a firm's tax liability will constitute taxable income for both state and federal income tax purposes. Consult your tax professional to determine your situation.

What local incentives are available to qualified businesses in Enterprise Zones?

Local incentives are determined by local governments and provide a variety of incentives to further encourage economic growth and investment in their enterprise zones. The following list is not inclusive but serves as an example of the most common local enterprise zone incentives offered: local tax abatements and rebates, business loans, job training, public improvements, fast track permitting, and development fee waivers. For more information on the availability of local enterprise zone incentives, contact the appropriate Local Zone Administrator.

Where can I obtain additional information about the program and request a copy of the application instructions or Program Regulations?

Information and instructions can be obtained from the Virginia Department of Housing and Community Development, Office of Community Revitalization and Development, 501 North Second Street, Richmond, Virginia 23219-1321, via the agency web site at www.dhcd.state.va.us, via email at ezone@dhcd.state.va.us, or by calling (804) 371-7030.